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SELECTED STATES DEFICIT REDUCTION STRATEGIES

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QUESTIONS

What caused California's, Massachusetts', New York's, and Rhode Island's 2008 budget deficits? How did the states address them? Did they succeed?

SUMMARY

The 2008 budget deficits in California, Massachusetts, New York, and Rhode Island (and many other states) were triggered by the 2007 national recession. But some policy analysts claim that long-term structural changes and prior tax and spending policies made the states especially vulnerable to recessions and undermined their ability to become fiscally solvent when the economy recovered.

The selected states responded to the recession-triggered deficits by adopting various spending and taxing measures. This report focuses on the latter. The states generally increased tax rates, expanded tax bases, reduced or eliminated tax credits, and limited tax deductions and exemptions.

- California and New York temporarily increased income tax rates, and Massachusetts increased the sales tax rate.

STATE CYCLICAL V. STRUCTURAL DEFICITS

When discussing state budget deficits, policy analysts often distinguish between "cyclical" and "structural" deficits, a distinction that helps explain why state revenue rises and falls with the economy.

Recent state deficits happened after the 2007 economic tailspin, after which revenue dropped below spending. During that period, businesses and consumers curtailed spending and other economic activities, causing revenue to drop (cyclical deficit).

Revenue rebounded after the economy recovered, but not at the same rate as in earlier recoveries. The factors that slowed revenue growth include new types of transactions, such as Internet sales, that fall outside state tax structures (structural deficit).

Other structural factors affect spending, including increased demand for government-subsidized health care, driven partly by a growing elderly population and new costly life-prolonging medical technologies.

- All the states sought to increase revenue by extending existing taxes to more types of transactions. For example, New York and Rhode Island extended their sales and use taxes to certain Internet transactions.

- New York limited income deductions for upper income taxpayers, and Massachusetts required combined reporting for businesses operating in multiple states.

- California and New York reduced certain personal income tax credits, while Rhode Island expanded its credits.

When the economy went into a down-cycle, economic transactions and the state revenue they generated also declined, creating an immediate cyclical deficit. But when it recovered, the revenue tended to lag behind the new growth, a condition some analysts attributed to the long-term consequences of many demographic and economic changes and earlier policy choices, the culmination of which transformed the cyclical deficits into structural ones.

The selected states began to implement their deficit reduction strategies when the recession ended in 2009 and taxable economic activity began to increase. Consequently, it is hard to isolate their impact on the states' fiscal recovery. California and New York, which increased taxes, appear to be recovering faster than Massachusetts and Rhode Island, but officials caution that structural factors still affect their capacity to weather future downturns and sustain spending levels. Although the economic outlook for Massachusetts and Rhode Island has improved, they face deficits in FY 15 and must still address significant structural factors that could potentially undermine their long-term solvency.

DEFICITS

Deficits happen when governments spend more than they collect in taxes, fees, and other revenue. Many states faced deficits in 2008 when revenues dropped below spending levels. The revenue drop happened after the economy slid into recession in 2007. Revenue began to increase in 2009, after the recession bottomed out and the economy began to recover. In many states, though, revenue increased at a slower pace than during previous recoveries, an outcome that shows how the economy affects revenue levels.

TAXES AND ECONOMIC PERFORMANCE

Tax Structure

Economic transactions connect taxes to the economy. States tax different types of transactions, and the extent to which a transaction generates taxes depends partly on how a tax is structured and how often people and organizations (parties) buy goods and services from each other (transactions). The typical components of a tax structure are the tax base, tax rate, collection method, and enforcement method.

Changes to any of these components could increase or decrease the amount of revenue a tax generates. For example, states could increase sales tax revenue simply by expanding the tax to otherwise exempt people, organizations, goods, or services. The extent to which this change increases revenue also depends on the extent to which parties are transacting business and the value of the transactions.

For example, during an economic upswing, people tend to spend more on clothes, TVs, and other consumer products, thus encouraging businesses to produce more, which they do by hiring more workers, buying more supplies, and investing in new machines. Table 1 describes some common transactions and the associated tax.

Table 1: Common Taxable Transactions

Transaction	*Tax*	*Parties to the Transaction*
Working for a wage	Personal Income Tax	Employers and employees
Buying a car	Sales and Use Tax	Sales people and car buyers
Transferring Wealth	Estate Tax	Deceased and heirs
Making Profits	Corporation Business Tax	Business owners and their customers
Selling Real Estate	Real Estate Conveyance Tax	Seller and buyer

The economy's performance affects the extent to which people and organizations engage in these transactions. Consequently, the amount of revenue a transaction contributes to the tax coffer depends partly on the economy's performance.

Recessions

Recessions happen when transactions drop for more than a few months. "A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP [(gross domestic product)], real income, employment, industrial production, and wholesale-retail sales," according to the Federal Reserve Bank of San Francisco.

The graphs and charts economists use to measure and track economic performance over time generally show peaks and troughs. "A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough," according to the San Francisco Federal Reserve. "Between the trough and peak, the economy is in an expansion. Expansion is the normal state of the economy; most recessions are brief and they have been rare in recent decades," the board explained.

The states' recent fiscal woes began in 2007, when the economy slipped into a recession that lasted 18 months, until June 2009, according to the private nonprofit National Bureau of Economic Research. But the recession's end date did not signify a full recovery, only that business activity started to increase after declining for consecutive months, the bureau noted. "Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion," the bureau explained. The slow recovery partially explains why state revenue is still below pre-recession levels.

Cyclical v. Structural Deficits

The economy's ups and downs affect the amount of revenue flowing into tax coffers and a state's capacity to sustain spending levels. States anticipate deficits when their revenue projections fall below their budgeted spending. When the economy rebounds, revenue increases and states regain their fiscal capacity to fund services (cyclical deficits). But, when the last recession ended in 2009, revenue in many states lagged behind the recovery, according to the National Association of State Budget Officers (NASBO), which annually tracks state revenue and expenditure.

States expected modest increases in total state general fund revenue in FY 15 (3.2%), compared to the actual FY 13 revenue increase (7.1%), NASBO's 2014 report states. (The report attributed the FY 13 spike in large part to "a one-time gain for states as high income taxpayers shifted capital gains, dividends, and personal income to calendar year 2012 to avoid higher federal tax rates that were set to begin on January 1, 2013" (*The Fiscal Survey of States*, Spring 2014)).

Some economists attribute this pattern to long-term structural changes, including some beyond states' immediate control. As Table 2 shows, these changes include demographic shifts that increase the demand for state and local government services, and technological changes that create new forms of transactions that fall outside the scope of most state tax systems.

Table 2: Factors Contributing to State Structural Deficits

Demographic	*Technological*	*Economic*	*Political*
• Growing proportion of elderly residents who (1) tend to spend less on taxable goods and services than younger ones and (2) qualify for age-related tax relief • Increased demand for (1) Medicaid-funded prescription drugs and (2) long-term care for low-income elderly and disabled people	• Transportation and communication technologies that allow businesses to operate in many different locations, making it hard for states to identify and tax profits generated in the state • Internet access allowing people to shop online and avoid paying state and local sales taxes • Medical technology advances that improve health and prolong life but also increase health care costs	• Increase in the range of sales tax-exempt services relative to taxable tangible goods	• Proliferation of economic development-related tax incentives aimed at retaining and attracting businesses • Relatively flat income tax structures and rate reductions for top income brackets • Voter initiatives and court decisions requiring states to pick up a larger share of elementary and secondary education costs • Long-term effects of state tax cuts from the mid-90s to 2001 that diminish states' fiscal capacity to weather recessionary storms • Adoption of tax and expenditure limits and other statutory restrictions that make it hard for states to adjust to changing budgetary needs • Federal laws prohibiting states from taxing certain activities (e.g., Internet Tax Act prohibits states from taxing Internet access fees)

Source: *Structurally Unbalanced: Cyclical and Structural Deficits in California and the Intermountain West*, Brookings Mountain West and Morrison Institute for Public Policy, January 2011.

DEFICIT REDUCTION POLICIES

The 2007-2009 national recession triggered fiscal deficits whose impacts were aggravated in California, Massachusetts, New York, and Rhode Island by various prerecession fiscal policies and practices, including:

1. cutting taxes and increasing or maintaining spending levels during an expanding economy (California and Massachusetts),

2. borrowing money from dedicated funds or issuing short-term debt to cover budget shortfalls (California and New York),

3. underfunding pension funds (Rhode Island) and stretching out annual pension fund contributions over 10 years (New York),

4. creating new Medicaid assistance programs (Massachusetts), and

5. over relying on volatile capital gains income (California and New York).

See Attachment 1 for summarizes the strategies and Attachment 2 for more details.

It was against these backdrops that the states created their deficit reduction strategies. Each state increased various fees and taxes:

1. each increased vehicle license fees;
2. Massachusetts, New York, and Rhode Island increased cigarette taxes;
3. California and New York temporarily increased income taxes;
4. California (temporarily) and Massachusetts increased sales and use taxes;
5. New York increased public utility and other fees;
6. Rhode Island increased the gas and health insurance premium taxes and expanded video lottery hours; and
7. New York created a new payroll tax to support public transportation in the New York City metropolitan area.

Each state also extended various taxes to more transitions:

1. New York and Rhode Island extended the sales and use to certain Internet businesses,
2. Massachusetts extended the excise tax to satellite broadcast services,
3. California extended the alcohol tax to malt liquor,
4. New York changed the method for calculating the excise tax on cigars and extended its business taxes to more types of businesses, and
5. Rhode Island extended the health insurance premium tax to more insurers.

The states limited the extent to which taxpayers could reduce their liability for different taxes:

1. New York limited income tax deductions for upper income taxpayers and Rhode Island extended its income tax to capital gains,
2. California suspended for tax years 2008-11 a rule allowing businesses to subtract net operating losses from their tax liabilities, and
3. Massachusetts instituted combined reporting and phased in corporate income tax reductions.

Three states made various changes to their tax credit programs:

1. California temporarily reduced the income credit for dependents;
2. New York reduced a credit for New York City taxes and reformed its business tax credit programs;
3. California created a new personal income tax credit for new home purchases and a new business tax credit for creating jobs; and
4. Rhode Island expanded it personal income tax credits and continued phasing in an optional, flat rate income tax, which together were meant to offset the projected revenue increases.

STRATEGIES' EFFECTIVENESS

The selected states' deficit reduction strategies took effect when the recession ended (2009) and the national economy began slowly to recover. Consequently, it is not clear whether the strategies alone would have reduced or eliminated the deficits if the recession continued. We could not find a study evaluating the effectiveness of the strategies, but annual state economic forecasts suggest that the states are still vulnerable to many of the structural factors discussed above, even as their revenue outlook improved.

California

By many accounts, California eliminated its deficit in 2014, confirming the Legislative Analyst's Office 2012 prediction that the state would generate multibillion-dollar operating surpluses if the economy kept growing and the state restrained spending (*The 2013-14 Budget: California's Fiscal Outlook*, Legislative Analyst's Office (LAO), November 2012). In January 2014, the governor welcomed the good fiscal news and proposed spending an additional $10 billion annually for California schools (*Wall Street Journal*, January 9, 2014). But he also sounded a cautious note, reminding the public of the state's long-term liabilities and debts ("California Budget Increases Spending as State Enjoys Surplus," *Wall Street Journal,* January 9, 2014).

The governor's statement suggested that California is still vulnerable to many long-term, structural problems that could reduce future revenue flows. For example, California, like New York, taxes capital gains income, which tends to fluctuate with the market. In 2012, voters approved a ballot resolution increasing the tax rate on income over $250,000. That year, a federal income tax credit for investment income expired, leading many wealthy Californians to sell their investments. The proceeds from these sales were subsequently taxed at the state's recently adopted higher rate.

In 2012, the LAO projected a surplus and advised the state's policy makers to build the constitutionally mandated budget reserve and "address several substantial liabilities that will have to be paid—most notably, unfunded retirement liabilities and outstanding loans for the state's special funds to the General Fund."

Massachusetts

Massachusetts' fiscal condition has improved since 2009, but not as dramatically as California's. The state's Executive Office of Administration and Finance projects a $492 million "cyclical" shortfall in FY 15, which it proposes to address by tapping $225 million in one-time revenue sources (*Long-Term Budget Forecast*, 2014). The office also anticipates "robust cost growth" in several spending areas, including subsidized health care for low-income people and health care for current and retired state employees. It also anticipates renewed economic growth boosting tax revenue.

Two nonprofit research organizations predict larger FY 15 deficits. The Massachusetts Taxpayers Association projects a $1 billion deficit, which it claims will result from revenue shortfalls and budget overruns (*MTF Analysis: Deficit Looms for FY 2015*, December 17, 2014). The Massachusetts Budget and Policy Center projects a $514 million gap, which it attributes to the long-term consequences of "a series of expensive tax cuts adopted between 1988 and 2002 and many years over which health care costs grew faster than the overall economy" (*A Preview of the FY 2015 Budget, January 15, 2014*).

Economic analysts see signs of an improving economy, which could boost revenue flow. Standard and Poor's rated a recent $200 million Massachusetts general obligation bond consolidation AA+, citing a healthy budget stabilization fund, high wealth and income levels, and a diversified economy (*RatingsDirect: Massachusetts; General Obligation*, Standard and Poor's Rating Services, May 15, 2014). The nonprofit New England Economic Outlook saw short-term signs of economic growth and several long-term challenges, including an aging population, a shrinking workforce, poverty and inequality, and insufficient investments in transportation infrastructure and early education programs (*Massachusetts Economic Outlook*, New England Economic Partnership, October 2014).

New York

New York's fiscal condition appears to have improved since 2009, but like the other states, New York still faces long-term structural forces that could affect its capacity to weather future fiscal storms. The state comptroller reported a combined $1.2 billion operating surplus and a combined $7.7 billion fund balance for the fiscal year that ended March 31, 2014. He also noted that total tax receipts increased $10.5 billion (8.3%) since 2010, but warned that, "revenues are affected by economic changes and changes in federal and state policies" *(State of New York Financial Condition for Fiscal Year Ended March 31, 2014).*

While the budgetary restraints the legislature adopted during the recession years brought spending into line with revenue (structural balance), the FY 15 budget includes over $5 billion from temporary or non-recurring revenue sources. The comptroller cautioned, though, that while such revenue may "appropriately be used for certain expenditures such as repayment of high-cost debt, one-time capital investments, building reserves or other non-recurring expenditures…, their use for general ongoing budgetary expenditures exacerbates the State's structural imbalance and should be avoided."

New York's financial business sector is another structural factor that, depending on the fiscal climate, could help or hurt the state's fiscal picture. The income and business taxes this sector generates tends to fluctuate with the market and federal tax law changes, creating volatile revenue flows and a need for well-funded budget reserves. For example, "on a year-over-year basis, Personal Income Tax collections jumped in April 2013 and fell sharply a year later because of taxpayer response to changes in federal capital gains taxes," the comptroller wrote.

Rhode Island

Rhode Island's Budget Office projects operating deficits ranging from $151 million in FY 16 to $419 million in FY 19. During this period, it expects spending to increase 4.1% per year and revenue to grow about 1.7% per year but cautions that these projections could change due to forces beyond the state's control. For example, Rhode Island could see its lottery revenue fall after casinos open in neighboring Massachusetts. "The impact of Massachusetts-based gaming facilities is significant as, absent their establishment, average general revenue growth in FY 2016 through FY 2019 period would be 2.7% versus the 1.7% average annual growth rate currently projected" (*State of Rhode Island and Providence Plantations Executive Summary Fiscal Year 2015*, Governor Lincoln D. Chafee).

Although the New England Economic Partnership saw improvements in Rhode Island's 2014 economic outlook, it found that the economy is "still operating with 'brakes on' and that the pace of growth will continue to be slow, particularly in key industries including manufacturing, construction, information, financial services, trade, and transportation and utilities." To improve this performance, the state must "create a tax system that aligns sales taxes, corporate taxes, unemployment insurance, and local property taxes with that of competing states, thus making the state tax-competitive."

The state must also recognize and address certain demographic trends that could diminish its fiscal capacity.

> The population is getting relatively older while the prime working-age group is stagnant, thus limiting the growth of the labor force. In addition, the state has a large number of adults without a college degree whose skills are unaligned with labor market needs. These people face significant difficulties to secure a job and a stable source of income and, thus, are subject to structural unemployment and poverty (*Rhode Island Economic Outlook*, New England Economic Partnership, October 2014).

HYPERLINKS

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Attachment 1: Comparison of the Selected States' Pre Recession Fiscal Policies and Practices

Spending and Taxing Practices			
California	***Massachusetts***	***New York***	***Rhode Island***
State cut taxes, increased spending, and made other fiscal decisions that had to comply with ballot initiatives, such as Proposition 98, which sets minimum spending levels for public education State also: • deferred making pension fund, medical cost, and school and community college payments; • used increased federal aid to maintain social and education spending levels that otherwise would have been dramatically reduced • required businesses to accelerated tax payments; • delayed when businesses could claim net operating loss carry forwards and temporarily restricted when they could claim other tax preferences • routinely avoided funding budgetary reserves	According to Massachusetts Budget and Policy Center, before the recession: • the state cut income taxes and increased the personal income tax exemption; • sales tax revenue continue to drop as untaxable internet sales increased; and • education, health care, human services, and local aid spending grew faster than the tax revenues (but slower than the economy) According to the Beacon Hill Institute, the state: • spent at a rate that wasn't commensurate with available revenues, • overspent on social services, and • underspent on highway and other physical infrastructure	• Even during economic expansions, state failed to raise enough revenues to sustain on going spending, particular for Medicaid and education, and to improve aging and obsolete transportation infrastructure • State balanced budgets through one-shot actions, including temporarily increasing income taxes, deferring when businesses could claim tax credits, and borrowing to fund pension plan contributions • State received large amounts of federal aid, making it fiscally vulnerable to future federal budget cuts	• From FY 01-FY 11, total annual state expenditures grew at a faster rate than personal income and inflation, with human services and education accounting for 65% of total FY 01-FY 11 expenditures

Attachment 1 (Cont.)

Borrowing			
California	***Massachusetts***	***New York***	***Rhode Island***
State borrowed money from transportation and other dedicated funds and issued economic recovery notes to maintain spending without increasing taxes	No action	In lieu of issuing voter-approved general obligation bonds, state issued "moral obligation" bonds and similar debt instruments to finance capital improvements, fund operating deficits, and provide local aid State addressed recurring revenue shortfalls by: • transferring funds from different accounts; • repeatedly borrowing funds from the Short-Term Investment Pool; • refinancing bonds without creating new assets; • stretching out debt payments; • delaying payments to contractors, counties, municipalities, and school districts; and • delaying tax refund payments	No action
Retirement and Health Benefits			
California	***Massachusetts***	***New York***	***Rhode Island***
State expanded public retirement and post-employment health benefits while increasing retirement system contributions to compensate for investment losses	No action	State stretched out annual pension fund contributions over 10 years, thus reducing the amount of annually required contributions	State's 2011 unfunded pension liability ranged from \$6.8 billion to \$9 billion, depending of the accounting rules used to determine liability Taxpayer contribution doubled from \$139 million in 2003 to \$303 million in 2010 (Rhode Island General Treasurer)

Attachment 1 (Cont.)

Medicaid			
California	***Massachusetts***	***New York***	***Rhode Island***
• Increased caseloads and medical inflation drove Medicaid cost up, despite low provider rates and per capita spending • State tried to balance budgets by reducing or containing Medicaid costs, often by merging many separate programs with the state's Medicaid program, but was partially successful due to the lack of federal approval	• Health care cost inflation exceeded general inflation, increasing the state's real cost of maintaining services • Significant cuts in MassHealth were followed by a major health care expansion with membership topping 1 million and subsidized insurance extended to over 160,000 people in the state's new Commonwealth Care plan	State expanded its Medicaid commitment by creating new state health care programs that were opened to more people and provided greater benefits, all of which increased federal matching funds but created a "sprawling Medicaid edifice, characterized by an 'unwieldy and overly decentralized structure that serves contradictory goals and provides perverse incentive.'"	Human services spending, including Medicaid, represented the largest share of the FY 11 budget • Vendor payments for Medicaid and other health care services ranked 2nd highest in nation on a per $1,000 of personal income basis in 2008 • State ranked 4th in FY 2009 in state Medicaid spending as a share of general fund expenditures • In FY 07, state lead the nation in average Medicaid payment per enrollee
Over Reliance on Volatile Revenue Sources			
California	***Massachusetts***	***New York***	***Rhode Island***
State: • relied heavily on personal income tax revenue, which includes capital gains; • had a relatively narrow sales tax base; and • offered many options for reducing corporate business taxes	No actions	State: • relied heavily on wage and capital gains income from high-income earners and • received about 16% of its total revenue from the sales and use tax.	No actions

Sources:

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- *More FAQs about RI's Pension Crisis*, State of Rhode Island, Office of the Treasurer
- *Truth in Numbers: The Security and Sustainability of Rhode Island's Retirement System*, Rhode Island General Treasurer, June 2011

ATTACHMENT 2: SELECTED STATES' DEFICIT REDUCTION STRATEGIES

Personal Income Tax				
Actions	***California***	***Massachusetts***	***New York***	***Rhode Island***
• Temporary Tax Increases	X		X	
• Deduction Limitations			X	
• Exemptions Eliminations				X
• Credit Permanent (P) or Temporary (T) Credit Reductions	T		P	
• New (N) or Expanded (E) Credits	N			E
Business Taxes				
Actions	***California***	***Massachusetts***	***New York***	***Rhode Island***
• New Tax			X	
• Tax Base Extension			X	X
• Temporarily suspended phase out of net operating loss deduction	X			
• Combined Reporting combined with rate reduction phase-ins		X		
• New (N) or Revised Tax Credits	N		R	
Sales and Use Tax				
Components	***California***	***Massachusetts***	***New York***	***Rhode Island***
• Temporary (T) or Permanent (P) Rate Increases	T	P		
• Tax Base Expansion		Alcoholic beverages	Internet businesses and transportation services	Internet businesses
Motor Vehicle, Tobacco, and Alcohol Excise Taxes				
Actions	***California***	***Massachusetts***	***New York***	***Rhode Island***
• Changes to Alcohol Beverage Tax	X		X	
• Cigarette Tax Increase		X	X	X
• Changes to Method of Taxing Cigars			X	
• Gas Tax Increase				X
Other Taxes and Fees				
Actions	***California***	***Massachusetts***	***New York***	***Rhode Island***
• Temporary (T) or Permanent (P) Vehicle License Fee Increases	T	P	P	P
• Excise Tax Extension		Satellite Broadcast Services		
• Public Utility, Regulatory, Other Fee Increases			X	
• Expand Video Lottery Hours				X

Source: *State Tax Changes in Response to the Recession*, Center on Budget and Policy Priorities, March 8, 2010

Attachment 3: Selected States Deficit Reduction Strategies 2008-2009: Tax Components

Tax Component	***Selected States***			
	California	***Massachusetts***	***New York***	***Rhode Island***

Personal Income Tax	• Temporary 0.25% per bracket increase adopted (2009-2010)
	• Dependent care credit temporarily reduced
	• Credit for purchasing new home adopted
	• Above changes expected to boost revenue by $5 billion in FY 10
		No changes	• Temporary (2009-2011) rate increases for highest income filers adopted:
			  ○ 6.85% to 8.97% for income over $500,000
			  ○ 6.85% to 7.85% for incomes above specified amounts based on filing status
			• Total deductions for taxpayers making over $1 million limited
			• State-funded credit on New York City personal income taxes reduced
			• Above changes projected to boost revenue by at least $4 billion year
				• Capital gains exemption eliminated, thus treating such income as ordinary income
				  ○ Anticipated $23.6 million revenue increase in 2010
				• Personal income tax credits expanded

Business Taxes	• Net operating loss deduction suspended for tax years 2008-11
	• Job creation credit adopted
		Massachusetts-based businesses with subsidiaries in several states required to total and report the profits for all their subsidiaries, regardless of location (combined reporting), beginning in 2008
		Scheduled corporate business tax rate reductions phased in, projecting $390 million revenue increases in 2010 and 2011.
			• New payroll tax started to support New York City metro area public transportation, expected to generate $1.5 billion per year
			• Other revenue-raising measures included:
			  ○ tax credit program reforms
			  ○ various taxes extended to more businesses
				Gross premium tax on health insurance providers extended to previously exempted insurers and rates increased, together expecting to increase revenue by $24.4 million annually

Sales and Use Tax	Temporary 2010 1% sales tax increase adopted; projected to generate $4.5 billion in FY 10	• Sales tax increased by 1.25%, projecting $900 million revenue increase • Tax extended to alcoholic beverages, expecting to increase revenue by about $95 million	Tax extended to: • more businesses selling over the Internet, expecting to increase $73 million more in revenue • limousine, car hire, and other transportation services, expecting to increase revenue by $23 million	• Tax extended to certain businesses selling over the Internet, expecting to increase revenue by about $3 million
Motor Vehicle, Tobacco, and Alcohol Excise Taxes	Malt beverage classification changed, projected to increase revenue by about $38 million	Cigarette tax increased by $1 per pack, expecting to increase revenue by about $175 million	• Cigarette tax increased to $2.75 from $1.50, expecting a $300 million revenue increase • Beer and wine tax increased from 18.9 cents per gallon to 30 cents per gallon • Method for taxing cigars changed, expecting to increase revenue by $10 million in FY 10	Cigarette tax increased by $1 to $346 per pack Gas tax increased by 2 cents, expecting to increase revenue by $13 million
Other Taxes and Fees	Vehicle license fees temporarily increased from 0.65% of vehicle's value to 1.15%, projected to increase revenue by $1.7 billion in FYs 10 and 11 (expires June 30, 2011)	• 5% excise tax imposed on satellite broadcast services, expecting to increase revenue by about $26 million in FY 10 • Driver's license and vehicle registration fees increased, expecting to increase revenue by $82 million in FY 10	• Public utilities regulatory and other fees increased, expecting to increase revenue by about $550 million • Additional vehicle fees imposed to fund Metropolitan Transportation Authority	Video lottery hours extended and vehicle license fees increased, expecting to increase revenue by about $20 million

Source: *State Changes in Response to the Recession*, Center for Budget and Policy Priorities, March 8, 2010

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